



MARYLAND DEPARTMENT OF THE ENVIRONMENT

**MARYLAND WATER QUALITY FINANCING ADMINISTRATION
WATER QUALITY REVOLVING LOAN FUND
ANNUAL REPORT
STATE FISCAL YEAR 2012
(JULY 1, 2011 - JUNE 30, 2012)**



Prepared By

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

SEPTEMBER 2012

**Martin O'Malley
Governor**

**Robert M. Summers, Ph.D.
Secretary**

**Anthony G. Brown
Lieutenant Governor**

**Annual Report
Maryland Water Quality Financing Administration
Water Quality Revolving Loan Fund
State Fiscal Year 2012 (SFY 2012)
July 1, 2011 - June 30, 2012**

TABLE OF CONTENTS

EXECUTIVE SUMMARY3

I. SUMMARY OF WATER QUALITY REVOLVING LOAN FUND OPERATIONS.....4

A. Intended Use Plans (IUP) and Capitalization Grants4
B. Financial Status4
C. Minority/Women Business Enterprise (M/WBE) Activity5
D. Follow-up Actions to Prior Year (SFY 2011) EPA Program Evaluation Report5
E. Provisions of the Operating Agreement5
F. Clean Water Benefit Reporting (CBR)/National Information Mgmt. System (NIMS) Databases5

II. GOALS AND ACCOMPLISHMENTS6

Table 1: Status of Intended Use Plans as of June 30, 2012

Table 2: Federal Cap. Grants, State Match, Retained Earnings & Binding Commitments as of June 30, 2012

Table 3: Loan Accounts Receivable and Borrower Credit Quality as of June 30, 2012

Table 4: Summary of Salary and Program Expenses - SFY 2012

Table 5: Minority/Women Business Enterprise Activity - SFY 2012

Appendix A: MWQFA Financial Statements & Independent Public Accountants Report - SFY 2012

Appendix B: MWQFA A-133 Supplemental Financial Report (Single Audit) - June 30, 2012

Appendix C: Maryland WQSRF as of June 30, 2012 (See CWNIMS Database Online)

Appendix D: Maryland WQSRF Environmental Benefits as of June 30, 2012 (See CBR Database Online)

Annual Report
Maryland Water Quality Financing Administration
Water Quality Revolving Loan Fund
State Fiscal Year 2012
July 1, 2011 - June 30, 2012

EXECUTIVE SUMMARY

This Annual Report is prepared for submission to the United States Environmental Protection Agency (EPA) in compliance with the reporting requirements under the Federal Clean Water Act and the Capitalization Grant Operating Agreement between the EPA and the Maryland Department of the Environment (MDE or Department) dated May 25, 1989, as amended. The report describes the operational and financial activities of the Maryland Water Quality Revolving Loan Fund (WQRLF or WQSRF or Fund) for State Fiscal Year (SFY) 2012. This report covers the period July 1, 2011 through June 30, 2012 and provides the overall status of Maryland WQSRF program as on June 30, 2012.

The Maryland Water Quality Financing Loan Fund was established in 1988 pursuant to the Maryland Water Quality Administration (MWQFA or Administration) Act, Title 9, Subtitle 16 of the Environmental Article, Annotated Code of Maryland consistent with the Federal Clean Water Act. The primary purpose of the Revolving Loan Fund is to make low interest rate loans, and other permitted subsidies such as grants/loan forgiveness, to local governments and other eligible entities for construction of eligible water quality infrastructure projects. Maryland's WQSRF finances capital improvements across the State to improve water quality by reducing pollution from both point sources and non-point sources. The WQSRF supports the State's goals and objectives for smart growth, sustainability and watershed implementation plan for Chesapeake Bay nutrient reduction.

Since 1988, MDE has received approximately \$979 million from federal capitalization grants and state match, which have been leveraged with revenue bonds, loan repayments, investment earning, resulting in over \$1.7 billion of loan and grant financing. The following is a brief summary of the WQSRF program:

Water Quality State Revolving Loan Fund				
FY 2012 - Executive Summary				
WQSRF Program	As of 6/30/12		As of 6/30/11	
Total Assts:	1,073,057,869		1,028,630,933	
Total Liabilities:	61,340,425		74,296,770	
Total Net Assets:	1,011,717,444		954,334,163	
Total Loans/Grants (excl. Linked Deposit):	1,709,612,834		1,484,929,339	
Linked Deposit Loans:	15,147,421		15,147,421	
Bonds Payable Balance:	57,742,238		70,461,705	
Federal Grant Awards:	831,600,546	(thru '11 IUP)	795,886,546	(thru '10 IUP)
Federal Grant Expended:	745,992,676		692,325,421	
State Match Appropriated:	147,372,000		140,229,000	
	FY 2012		FY 2011	
Capitalization Grant Award:	35,714,000	(FFY '11 IUP)	49,279,000	(FFY '10 IUP)
State Match Appropriated:	7,143,000		9,856,000	
Federal Grant Expenditure:	54,294,181	Inc. Admin	67,225,570	Inc. Admin
Net New Financing (excl. Linked Deposit):	224,683,495	(16 projects)	34,077,575	(12 projects)
Wt Average Interest Rate:	0.96%		1.85%	
Linked Deposit Loans:	852,953	(11 projects)	380,135	(6 projects)
Loan Principal Repayments:	67,336,568		67,449,630	
Total Interest Repayments:	8,996,672		9,414,075	
Bond Principal Repaid:	12,920,000	Cash	11,840,000	Cash
Bond Interest Expense:	3,015,687	Cash	3,508,359	Cash
Total Investment Earnings:	4,139,658	Accrual	5,466,769	Accrual

Annual Report
Maryland Water Quality Financing Administration
Water Quality Revolving Loan Fund
State Fiscal Year 2012
July 1, 2011 - June 30, 2012

I. SUMMARY OF WATER QUALITY REVOLVING LOAN FUND OPERATIONS

A. Intended Use Plans (IUP) and Capitalization Grants

Table 1, Status of Intended Use Plans, provides a summary of projects identified on all existing IUPs as of June 30, 2012. The existing IUPs identify WQSRF project financing totaling \$1,725,613,209, including \$16,000,375 in Linked Deposit (LD) bank loans and \$1,709,612,834 in direct loans. During SFY 2012, net new WQSRF direct loans and grants executed totaled \$224,683,495 (13 agreements) and LD loans totaled \$852,953 (11 projects) for a total of \$225,536,448. The weighted average interest rate on direct loans was 0.96%. Table 1 also shows total sources of funds at approximately \$2.2 billion with a 94% fund utilization rate as of June 30, 2012. The list of LD bank loans executed during FY 2012 are shown on the last page of Table 1.

Table 2 provides a summary of the total Federal Capitalization Grant awards of \$831,600,546 as of June 30, 2012 and total State Match appropriation of \$147,372,000. The State Match is deposited into the fund prior to federal grant funds drawn on capital projects. The maximum binding commitment required based on total federal grant and state match is \$978,963,735, which was exceeded based on the total direct loans and grants executed totaling \$1,709,612,834 as of June 30, 2012. Table 2 also shows a summary of the WQSRF retained earnings of \$150,283,709 as of June 30, 2012, as reported on the audited financial statements; this retained earnings excludes the \$58,492,871 in permitted grants and loan forgiveness disbursed, demonstrating no loss of federal and state equity and overall fund perpetuity.

B. Financial Status

The MWQFA Annual Financial Statements and Independent Public Accountants Report for the period ending June 30, 2012 is included as Appendix A and the Annual Financial Report (Single Audit) for the same period is included as Appendix B to this Annual Report. As of June 30, 2012, the Balance Sheet shows Assets of \$1,073,057,869 and Liabilities of \$61,340,425 and Total Net Assets of \$1,011,717,444.

Table 3 shows a summary of WQSRF loans made to borrowers and the receivable principal balance as of June 30, 2012. Of the total \$1,644,939,694 in loans (base/ARRA) executed (excluding LD), the principal outstanding as of June 30, 2012 was \$712,018,455. The above does not include \$64,673,140 awarded as permitted grants and/or loan forgiveness. Table 3 also provides a summary of the Borrower Credit Quality that shows 77% of the loan principal outstanding is associated with borrowers Rated "Baa" or higher (investment grade) by Moody's, while 23% of loans are with borrowers that are Not Rated by the Bond rating agencies. The MWQFA undertakes an annual financial review of non-rated borrowers to identify any as "credit watch." In addition, prior to loan closing, MWQFA reviews the financial status of all borrowers to ensure financial capacity that meets the MWQFA loan underwriting criteria.

Table 4 shows a summary of administrative expenses of the WQSRF program during SFY 2012, which totaled \$5,365,350, which were made from both fees charged on loans (5% funds) and federal 4% funds. Table 4 also shows the use of 5% (program income) funds by MDE's organizational units.

The funds available for program expenses for SFY 2013 and beyond is estimated at \$6.67 million. All unused 4% federal administrative funds from capitalization grants prior to FFY 2008 have been capitalized (i.e., allocated towards loans).

If federal 4% funds are used during SFY 2013 for administrative expenses, MWQFA will continue to use its revised procedures in place since FY 2005. These procedures involve drawing the 4% administrative expenses at 100% of federal funds rather than at 83.3%, federal and 16.7%, state match. To ensure that State match funds are provided prior to federal draws (including indirect costs), the MWQFA, based on the estimated 4% expenses anticipated during the SFY, will first draw down the required 20% state match at 100% state funds. This match will work as an advance to the federal 4% draws (including indirect costs) anticipated during the fiscal year. If additional state match is necessary during the SFY, MWQFA will draw additional match funds at 100% state funds.

C. Minority/Women Business Enterprise (M/WBE) Activity

Table 5 provides a summary of the M/WBE participation on new procurements approved by MDE during SFY 2012. The WQSRF procurements approved by the Department show a DBE participation of 53% of the WQSRF financing amount.

D. Follow-up Actions to Prior Year (SFY 2011) EPA Program Evaluation Report (PER)

EPA recommends that MDE implement its newly proposed policy on timely and expeditious use of federal grant funds.

WQFA has implemented a process to draw down federal and State match first, as capital project payments are reimbursed to SRF borrowers. As a result, the FFY 2007 and 2008 cap grants were fully expended during FY 2012 and the FFY 2009 Cap grant and ARRA grant by September 2012.

E. Provisions of the Operating Agreement

The MWQFA has complied with the provisions of the Capitalization Grant Operating Agreement between the EPA /MDE dated May 25, 1989, and its subsequent amendments dated 8/21/98, 11/15/00 and 3/18/2008. The EPA during their annual WQSRF Program Evaluation will have an opportunity to review the project files and financial reports to affirm compliance with the Operating Agreement and Capitalization Grant Agreements.

F. Clean Water Benefit Reporting (CBR) & National Information Management System (NIMS) Database

The CBR and NIMS databases have been updated for all WQSRF projects financed during SFY 2012. The database reports are being incorporated here by reference and are not included as a hard copy in this annual report. Below are examples of environmental benefits provided by some of WQSRF projects financed during SFY 2012:

Anne Arundel County Broadwater WRF ENR Upgrade project:

The proposed project entails construction of Enhanced Nutrient Removal (ENR) facilities at the existing 2 million gallons per day (mgd) Broadwater Water Reclamation Facility (WRF). Upon completion of the ENR upgrade, the plant will achieve an effluent with Total Nitrogen goal of 3 mg/l and Total Phosphorous of 0.3 mg/l. The Total Nitrogen reductions expected are 10,965 lbs/yr and Total Phosphorus 10,365 lbs/yr. The improvements will reduce nutrients to Deep Creek and ultimately the Chesapeake Bay. The project provides sewer service to approximately 4,367 Equivalent Dwelling Units (EDUs).

Rhode River/Cheston Point Living Shoreline project:

The project consists of the construction of a combination of stone breakwaters, sand beach, low marsh, high marsh and upland plants using the living shoreline technique. The project will create approximately 3.5 acres of new wetlands and protect about 1,500 feet of shoreline. The new wetlands will protect the shoreline from erosion and filter stormwater runoff, reducing the nitrogen, phosphorus, and sediment that enters the Chesapeake Bay and provide habitat for wildlife.

Snow Hill WWTP BNR/ENR Upgrade project:

This project entails construction of Biological Nutrient Removal (BNR) and Enhanced Nutrient Removal (ENR) facilities at the existing 0.50 million gallons per day (MGD) Snow Hill Wastewater Treatment Plant (WWTP). The treatment plant construction will mainly include new head-works, equalization tanks, five-stage Bardenpho biological treatment process, clarifiers, denitrification filters, UV disinfection and sludge processing facilities. Upon completion of the BNR and ENR upgrades, the Snow Hill WWTP will be capable of achieving effluent quality with annual average nutrient goals of 3.0 mg/l for Total Nitrogen (TN) and 0.3 mg/l for Total Phosphorous (TP). The purpose of this project is to reduce nutrients to the Upper Pocomoke River and ultimately the Chesapeake Bay. The improvements will reduce the Total Nitrogen loads to the Chesapeake Bay by 15,228 lbs/yr and Total Phosphorus loads to the Bay by 2,589 lbs/yr. The project serves approximately 2,000 EDUs.

Frostburg Paul St/East Mechanic St CSO Elimination Phase VI project:

The project involves planning, design and construction for the separation of the combined sewer system and related ancillary improvements to the City of Frostburg's wastewater collection system. Specifically, the project consists of construction of new gravity sewer and stormwater lines and the replacement and rehabilitation of the existing system to prevent combined sewer overflows. The project serves approximately 5,203 EDUs.

Blue Plains WWTP New Digestion Facilities Project:

This project entails construction of a New Digestion Facilities at the existing 370 million gallons per day (MGD) Blue Plains Wastewater Treatment Plant owned by Washington DC. Along with the thermal hydrolysis and anaerobic digestion process, the project includes pre-dewatering centrifuge building, combined heat and power facility, gas treatment facility, and other improvements. The loan funded the main process train and site preparation contracts. The major benefits are the production of Class A biosolids, reduction of sludge hauling costs, generation of renewable fuel from digester gas production for plant utilization and reduction of greenhouse gas emissions. The SRF loan partially financed the Maryland (WSSC) portion (~45%) of the project cost. The project serves approximately 544,776 EDUs in Maryland.

II. GOALS AND ACCOMPLISHMENTS

The key goals identified in the prior year Intended Use Plans and the achievements towards these goals during SFY 2012 are summarized below:

- To utilize the total financial resources of the fund by providing low interest loan financing and grant/loan forgiveness, while maintaining a perpetual source of capital funds for future water quality capital projects.

During SFY 2012, the WQSRF awarded \$237,409,500 in net new financing (excluding Linked Deposit), which included \$232,466,500 in loans and \$4,943,000 in grants/loan forgiveness. The

loans were at a weighted average interest rate of 0.96% for 20-year term. Including linked deposit bank loans of \$852,953 and adjusting for prior year project closeouts of \$12,726,005 in reversions, the net amount of WQSRF financing recorded in NIMS database for FY 2012 is \$225,536,448. Based on cumulative sources and uses of WQSRF funds as of June 30, 2012, the financing utilization rate is 94%. As of June 30, 2012, after accounting for cumulative grant/loan forgiveness disbursement of over \$58 million, the WQSRF capital fund had retained earnings of \$150 million.

Additional subsidy in the form of grant/loan forgiveness is provided to disadvantaged communities (DAC), not to exceed the cumulative federal statutory limit for each federal grant. The grant/loan forgiveness subsidy provided can be up to 87.5% of the loan amount, not to exceed \$1.5 million per project per applicant per IUP. To qualify as a DAC, the applicant must meet any one of the following DAC criteria:

1. *Sewer user rate per year per Equivalent Dwelling Unit (EDU) > 1% of Community Median Household Income (MHI); or*
2. *Project is physically located and benefits an MDE approved Environmental Benefit District; or*
3. *Project is physically located and benefits a community with MHI less than 70% of State MHI; or*
4. *Sewer user rate would increase by more than 20% to achieve financial capacity.*

In addition to above, additional subsidy, up to 87.5% of the “green project cost” not to exceed \$1.5 million, may also be provided to an applicant undertaking a project with eligible green elements. This option was available to green project applicants for FFY 2010 and 2011 IUP projects to enable Maryland to meet the required 20% green project reserve. Additional subsidy was authorized under WQSRF with ARRA funds and now also permitted/required by grants starting FFY 2010. Table 1 provides the list of projects receiving additional subsidy and a summary by capitalization grant.

- To implement the Department's Smart Growth, Priority Places and Environmental Benefit District (EBD) goals:

During FY 2012, all projects funded were consistent with the State's Priority Funding Area (PFA) requirements.

- To provide low-cost financing to local governments, in tandem with the Maryland Biological and Enhanced Nutrient Removal (BNR & ENR) Grant Program, to upgrade targeted wastewater treatment facilities with advanced treatment to meet the load reductions required by the Chesapeake Bay Watershed Implementation Plan (WIP).

In Maryland, a major State initiative is to continue reducing nutrient loading to the Chesapeake Bay through agreements between the EPA; the States of Maryland, Virginia, and Pennsylvania; the District of Columbia; and the Chesapeake Bay Foundation. The State of Maryland, to meet its nutrient load cap under the Chesapeake Bay TMDL, has targeted 67 major WWTPs for the construction of BNR and ENR facilities. For BNR upgrades (TN reduction from 18 mg/l to 8 mg/l) the State provides grants up to 50% of eligible capital costs and low interest WQSRF loans for the balance of project costs. For ENR upgrades the State provides grants up to 100% of eligible ENR capital costs from the Maryland Bay Restoration Fund and low interest WQSRF loans for the balance of non-ENR related project costs. During SFY 2012, the MWQFA provided ~\$236 million in WQSRF direct gross funding for 12 BNR/ENR projects.

- To provide low-cost financing for water quality projects that: 1) benefit the priority watersheds under the Maryland WIP strategy; 2) address Combined Sewer Overflows and Sanitary Sewer

Overflows; 3) address water quality problems resulting from non-compliance with NPDES permits or public health problems associated with failing septic systems, and upgrade aging water quality infrastructure; and, 4) address non-point source of pollution and/or green infrastructure projects.

During SFY 2012, of the \$237 million in direct gross WQSRF financing, ~\$236.3 million was to point source projects (advanced treatment at WWTP and CSO), and ~0.7 million to green projects, excluding the \$0.85 million to non-point source LD bank loan projects (see table 1 for details).

- To ensure facilities are constructed and maintained at a reasonable cost for the users of the system, and continue coordination of state grant programs with other Federal/State financial assistance programs.

During SFY 2012, WQSRF awarded approximately \$4.9 million in additional subsidy (grant/loan forgiveness) to Disadvantaged Communities and green projects. MDE WQSRF and state grant programs (FY 2012 budget \$339 million) continue to co-fund projects with the U.S. Department of Agriculture (USDA) and Community Development Block Grant (CDBG) Program to keep user rates affordable. During SFY 2012, the MWQFA continued to use its financial model to assist communities in developing affordable user rates and in determining disadvantaged community status. This process involves meeting with other funding agencies to jointly discuss how best to fund projects particularly in disenfranchised communities.